Status Report 2/13/95

Marketing

Issues: Consumer research, positioning platform development, packaging, launch/distribution strategy, conversion kit, merchandising.

Recent Activity:
Received preliminary concepts from Design Continuum regarding transportation/protection. Will review with B-team this week prior to assigning second round of development.

Attended consumer research with PM sales force participants in Chicago. (See Consumer Research section for detailed debriefing)

Attended PMKK briefing in Richmond. Will provide PMKK with duplicate sets of prototype trial kits.

Received detailed breakdown of names of PM consumer database. This information will be used to help determine potential introductory markets.

Discussed direct delivery system issues with PM fulfillment group to determine how to best set up such a system.

Upcoming Events: Briefings/Presentations to PM management.

Develop more detailed activity list for milestone report. Awaiting installation of software from IS.

Develop layout of conversion kit information brochure.

Develop more detailed launch market scenarios to better estimate lighter quantities that will be needed, potential retail outlets to be targeted, etc.

Review results of Leo Burnett's brainstorming session and focus their next assignment specifically on lighter names.

Sales & Distribution

Recent Activity: Met with IS to identify next steps and their involvement in Distribution and consumer response.

Sales Management update of Distribution plans and issues.

Field sales interviews.

Met with Fulfillment to discuss distribution strategies and next steps for direct delivery.

Upcoming Events: Scheduled to meet customer service about Retail Distribution week of February 27.

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Consumer Research

Issues: Lighter design, cigarette taste acceptability, consumer receptivity (to concept, use, behavioral adaptation), consumer-related product performance (ease of use, comprehension, reliability, durability, consistency).

Recent Activity: Twelve in-depth interviews were conducted among Sales Force management representing each region. Objectives: Product development guidance from "naive" U.S. consumers; insights on receptivity to concept and positionings. Outcomes: direction on three positioning drafts for verbage, tone, clarity; support for previous findings that smoking lifestyle (self-restrictions) combined with smoking attitudes (discomfort among family or close friends) predict product receptivity; preference for tall, sleek lighters over shorter, wide Sept. design; agreed with changes in display and its position on March lighters; taste comments--cigarette-like, for some surprising, a few volunteered MUL ballpark, still some harshness comments. Got questions on "discovery benefits" and marketing plans, such as cost of cigarettes/lighter (most volunteered $20-25 for lighter). Several interested in longer trial opportunity.

Plans discussed for U.S. and Japanese product usage studies of next generation lighter design, expected to arrive March 20. First "consumer" use expected to be day-long among MDF smokers, followed by U.S. Sales Force and Operations, and anticipating PMKK/Sanyo use study mid-April.

Upcoming Events: Meeting with Leo Burnett, U.S. Marketing Research, and our Marketing and Sales to map out a marketing research plan focused on input to product positioning.

Determine consumer data required to support cigarette and lighter development milestones in 2Q95. Prerequisites: Lighter with next generation functional features and heater; machine-made reference cigarettes.

Finance & Planning

Issues: Product Costs, 1995 & 1996 Budgets, Final 650, Overall Project Schedule and Milestones, New York Planning Schedule.

Recent Activity: The project's Final 650 request is nearing completion. Capital and expense needs of $32.7 million and $39.5 million, respectively, have been finalized. Project ROI and sensitivities are expected shortly.

The approval process for the 650 has begun. Richmond signatures are expected to be completed by February 24. The 650 package will then be sent to New York for further approvals.

Updating product costs for February 16 presentation. No significant changes are anticipated.

The asset transfer process at Ashland continues and is expected to be completed by early March, approximately one month ahead of schedule.

Upcoming Events: Final 650 package submitted to Corporate in early March.

Possible Board presentation on March 29 regarding the project and 650 request.

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Once the 650 is released from Richmond, work will begin on an updated 1995 Budget and a pro forma 1996 Budget.

Legal & Regulatory

Issues: Regulatory and legal review and research covering marketing, manufacturing, testing, distribution, planning and product liability issues; contractual arrangements; project assets structuring; document drafting and review.

Recent activity: Research product liability and regulatory issues related to unintended use of product.

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Study boundaries and processes governing FDA's regulatory authority over drugs and medical devices.

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